

**MINUTES OF THE
SPECIAL MEETING OF THE BOARD OF DIRECTORS
OTAY WATER DISTRICT
May 17, 2010**

1. The meeting was called to order by President Bonilla at 3:30 p.m.

2. ROLL CALL

Directors Present: Bonilla, Breitfelder, Croucher, Lopez and Robak

Director Absent: None

Staff Present: General Manager Mark Watton, Assistant General Manager of Administration and Finance German Alvarez, Assistant General Manager of Engineering and Water Operations Manny Magana, General Counsel Yuri Calderon, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Operations Pedro Porras, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

A motion was made by Director Breitfelder, seconded by Director Lopez and carried with the following vote:

Ayes:	Directors Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to approve the agenda.

5. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

No one wished to be heard.

WORKSHOP

6. ADOPT RESOLUTION NO. 4159, APPROVING THE FISCAL YEAR 2010-2011 OPERATING AND CAPITAL BUDGETS AND ADOPT WATER AND SEWER RATE

INCREASES; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; ADOPT ORDINANCE NO. 525 TO AMEND APPENDIX A OF THE CODE OF ORDINANCES WITH THE PROPOSED WATER AND SEWER RATE INCREASES AS PRESENTED IN THE FY 2010-2011 OPERATING AND CAPITAL BUDGET; AND DIRECT STAFF TO SEND CUSTOMERS NOTICE OF THE RATE INCREASES (BEACHEM)

Chief Financial Officer Joe Beachem indicated that staff would be presenting a PowerPoint presentation discussing and recommending approval of the Fiscal Year 2011 Operating Budget of \$77 million, the Capital Improvement Program (CIP) Budget of \$28.5 million, a 10.9% rate increase for potable and recycled customers, a 6.8% rate increase for sewer customers, and associated fund transfers. Mr. Beachem stated that upon the board's approval, the District will provide a 30-day notice of the rate increases to its customers. He noted that the District has approved a five-year rate plan and the notice is provided to customers to make them aware of the proposed increase. Mr. Beachem stated that the proposed water and sewer rate increases will be implemented on January 1, 2011.

Chief Financial Officer Beachem discussed the District's rate model which was utilized to determine the rate increases for the FY 2011 Operating and CIP budgets. The model includes information such as the District's beginning balances, anticipated County Water Authority (CWA) and Metropolitan Water District (MWD) increases, a number of assumptions, as well as targets for debt coverage and reserves. He indicated that the rate increase is primarily due to external factors which include increases from the District's wholesale suppliers; CWA, MWD and the City of San Diego. MWD and CWA have increased their rates which has increased the District's costs by \$1.6 million (MWD increased its cost to CWA 12.2% and CWA increased its cost to the District 11.3%). He noted that 65% of the District's budget would go towards these increases. He also indicated that staff has estimated that the reclaimed rate increase from the City of San Diego would be approximately 4.5% per year from 2007 forward and is expected to become effective about six (6) months into the fiscal year. Staff also noted that increases for sewer services will be approximately 5.9% or \$57,600 from the Public Utilities Department of the San Diego Metropolitan Wastewater Commission and 14.7% or \$33,900 from the Spring Valley Sanitation District. These increases have also been incorporated into the budget. He stated that the District's Proposition 218 notice to its customers last year had authorized the District to pass-thru rate increases from the District's wholesale suppliers to its customers.

The District's CIP Plan will require funding for improvements to the District's system and replacing infrastructure to meet customer needs which also pushes rates up. Also, impacting rates is reduced water sales due to rainfall, conservation and economic difficulties. However, through Strategic Planning, the District has increased its efficiency and staff has been able to reduce its Operations and Material (O&M) costs by \$349,500. These internal efficiencies have helped offset the impact of the external increases, reducing the proposed rate increase to 10.9% instead of 12.7%.

Chief Financial Officer Beachem discussed the District's reserve policy and presented a chart that showed its FY 2011 projected beginning reserve balances of \$97.2 million and target of \$53.8 million. He indicated that reserves will be slightly above its target levels primarily because of the debt issuance that the Board recently approved to fund the District's CIP over the next few years. He stated that each year the District's reserve balance will remain above its target level and will be built into the rate structure. To balance out the District's reserve target, he stated that staff is recommending a transfer of \$14.9 million and indicated that this request is in compliance of the District's reserve policy.

In response to a question from Director Breitfelder, Chief Financial Officer Beachem stated that the reserve balances are much above target levels due to the issuance of debt to cover the cost of CIP projects for a few years. By issuing debt to cover a few years of CIP projects as opposed to one year, the District is more cost efficient as it reduces the cost of issuing debt.

Chief Financial Officer Beachem discussed the District's debt coverage ratio and indicated that the District's target is 150% with a minimum of 125%. He stated that this target excludes growth revenues, as rating agencies want to assure that when there is no growth that the agency can stay above its minimum coverage ratio with operating revenues alone. He stated that maintaining a ratio near 150% is important especially when issuing debt and becoming a viable partner for significant contracts. He also discussed the District's Other Post Employment Benefits (OPEB) fund. He indicated that the bi-annual actuarial evaluation is complete and is being used to calculate the District's Annual Required Contribution (ARC) to PERS. The OPEB payments are budgeted to be consistent with prior years, accounting rules and Board direction. The District's OPEB fund will be utilized to fund any liabilities that were incurred from the past. It is anticipated that with the market recovery, when the PERS OPEB Fund and the District's OPEB Fund are combined, the District's OPEB liability will be fully funded. This is an advantage in terms of credit rating. Currently, the District's credit rating is a solid AA from both Fitch Ratings (upgraded in April 2010) and Standards & Poors (upgraded in September 2008).

He presented a slide showing the results of a member agency water rates survey for customers utilizing 10-15 units of water per month. The slide indicated that the District is the 7th lowest water cost provider of the 23 agencies throughout the San Diego region. At the request of Director Robak, Chief Financial Officer Beachem stated that staff would provide to the Board the results of the District's position among the 23 agencies for customers utilizing 20 to 30 units of water per month.

Chief Financial Officer Beachem discussed sewer rates and indicated that staff is proposing a 6.8% sewer rate increase because of increased charges from the City of San Diego's Public Utilities Department – Wastewater Branch (\$57,600), Spring Valley Sanitation District (\$33,900), and other factors. Helping to offset the sewer cost increases, the District had reduced its labor and benefits costs by approximately

\$213,000. A slide showing the results of a survey of a comparison of sewer rates indicated that the District was the 10th lowest cost provider among the 32 agencies in the County providing wastewater services.

Chief of Information Technology Geoff Stevens indicated that the District's Strategic Planning process has been in place for ten years now. The process is made up of three 3-year cycles (FYs 2003-05, 2006-08, and 2009-2011) and the District is in its third year of FY 2009-11. He stated that the District has been receiving the benefits of the plan through increased efficiency. He presented a graph that showed a 12% increase in the ratio of customers per employee and indicated that the District has reduced 16 staff positions since FY 2007. Chief of Information Technology Stevens indicated that a combination of reducing staff and outsourcing some staff positions have resulted in an overall total savings of \$1.8 million in the District's FY 2011 Operating Budget.

Chief of Information Technology Stevens stated that the Information Technology (IT) Department is currently focusing on an Asset Management Plan which will assist staff to increase the efficiency of maintaining and monitoring the District's fixed assets (infrastructure, pipelines, reservoirs, etc.) worth approximately \$600 million. In addition, the District has implemented a report manager system, called SharePoint, which constantly collects information from all of District systems from which customized reports may be generated much more easily. SharePoint has improved the efficiency of producing reports and has made data more immediately available to staff.

Chief of Administrative Services Rom Sarno reported that the District has implemented NEOGOV, a system that automates and streamlines the recruitment process. The new system now allows applicants to apply online through the system and staff is able to rate the experience and education of all applicants in the system. The system then provides a rating for each applicant which eliminates a lot of data input for staff. He also indicated that the Administrative Services Department eliminated two staff positions, a warehouse/delivery worker and a facilities maintenance technician. In collaboration with the Engineering Department, he reported that the District's landscaping standards have been revised and will be referred to for the design and development of the District's facilities. It was indicated that the landscaping standards include the removal of some of the bushes and plants at District facilities to increase water conservation and lower the cost of maintenance. The District has, thus far, saved over 60% in landscape maintenance costs compared to FY 2007-08. In addition, he noted that the removal of the bushes and plants has improved the security of the facilities by allowing neighbors to clearly see and report any unusual activity. Security standards for the design of new facilities were also revised and implemented to include uniform templates and hardware which assists in expediting maintenance and repairs. Chief of Administrative Services Sarno further shared that the District's Human Resources Department now contracts with a mobile unit to perform employee drug tests. This eliminates travel-time and minimizes down-time for the approximately 72 employees each year who are randomly selected to be tested.

In the Finance Department, Chief Financial Officer Joe Beachem indicated that the Finance Department has been reduced by one (1) full-time employee, and that due to the District's automated meter reading (AMR) program and the outsourcing of meter cleanouts, the District was able to reduce the number of Meter Reader positions from nine (9) to five (5). Mr. Beachem also reported that the implementation of e-billing and bill warehousing has reduced printing, mailing, and postage costs. He stated that bill warehousing has also improved the District's collection process allowing staff to act earlier and take more efficient action on delinquencies.

Chief of Water Operations Pedro Porrás reported that the Operations Department outsourced a laboratory analysis position that was vacated through an employee's early retirement. The outsourcing of this position saved the District a net of \$71,000 per year and also eliminated the need for one (1) District vehicle. In addition, the Operations Department reallocated staff which resulted in a reduction of one (1) crew leader position. Mr. Porrás also reported that there was a net savings of \$29,000 in chlorine costs due to a competitive bidding process and savings have also been realized through the District's Fleet Management Program which has saved approximately \$46,300 in FY 2010 through a 20% reduction in fuel use.

Chief of Engineering Rod Posada reported that the Inspection and Survey Division is now using an IMS Integration System that enables staff to file inspection reports real time. The system has reduced workload and has allowed the District to reduce Inspection staff from five (5) full-time positions to three (3). It was also reported that the Public Services technicians are now providing administrative assistance to the Engineering Construction Department by taking over the duties of CIP development reports. This change will allow Engineering Technicians to focus on the drafting and designing of District facilities.

Chief of Engineering Posada provided an update of the District's CIP program and indicated that growth has slowed due to the recession. He indicated that the housing market will remain flat in the next year, but an up-turn is anticipated in a couple of years. It was noted that one positive aspect is that 42% of the new industrial land and 20% of the new residential land in San Diego County are all located within the District's boundaries and provides an excellent opportunity for growth in the future. Chief of Engineering Posada stated that with the assumption of growth remaining flat in FY 2011, the District's six-year CIP expenditure plan is as level as possible and will include a couple of projects that will require a considerable amount of expenditures in FY 2011 and 2012. In addition, it is expected that between January 2010 and December 2011 the District will have an increase in construction cost of approximately 7.3% based on the CWA's Construction Cost Index increase of 9.6% for the next two (2) years. He discussed several planning documents that were used to develop the District's CIP program, which include the following: Integrated Water Resources Plan, Water Resources Master Plan, Sewer System Management Plan, Sub-Area Master Plan, Urban Water Management Plan, Strategic Plan, Asset Management Plan, and Waste Water Master Plan. It was indicated that last fiscal year staff requested

approximately \$222 million for the six-year CIP Budget, but this year staff is requesting \$181.4 million for the six-year CIP Budget. This is a substantial reduction of approximately \$40 million due to new water resources that will no longer require some facilities, such as pipelines and reservoirs, to be built. Graphs were provided that showed the expenditures for the \$181.4 million dollar projects over the next six (6) years and high profile CIP projects for FY 2011 that totaled \$28.5 million dollars.

Finance Manager Rita Bell discussed the District's Operating Budget, which included the process, highlights and details of the budget. She indicated that each year the District's budget process involves the alignment of the rate model, Operating and CIP budgets and consideration of growth and cost changes in labor and the CIP program. Input from staff members is also reviewed; different budget methodologies and past projections are analyzed, and the Operating and CIP Budget requests are reviewed and adjustments are made where necessary. She stated the challenges in developing the budget are the increase in wholesale water costs, the decrease in water sales, focusing the CIP on new supplies of water, the revised capacity and annexation fees, maintaining the reserve levels and debt coverage ratio, and maintaining the District's water and sewer rate position relative to other agencies in the region. A chart was presented that compared the actual growth in FY 2008-09 and the projected growth in FY 2010-13. It was indicated that individual water customer accounts will increase in the future, but at a much slower rate than in the past.

Finance Manager Bell stated that although meter sales are gradually increasing, the District's potable water volume has decreased approximately 10.3% (3,426 AF) and potable water sales revenues decreased .2% (\$140,600) to about \$1.3 million. In addition, she stated that MWD's and CWA's fixed fees have increased and indicated that those charges will be a 100% direct pass-thru to the District's customers. To be in compliance with Best Management Practices (BMP) 11, Finance Manager Bell noted that the District's fees are set to collect 28% of sales in fixed and the remaining in variable.

She indicated that the District's sales volume for recycled water has decreased about 5.7%, but recycled water sales are up .2% (\$18,100) because of the District's rate increases. System fees remain relatively flat. It was also reported that energy fees have decreased because of low volume, and penalty fees have remained the same.

Finance Manager Bell discussed the District's sewer revenues and stated that staff is proposing a 6.8% rate increase for sewer services. Sewer fees for residential and multi-residential customers will be based on their average water consumption in the winter, and sewer fees for the remaining sewer customers will be based on their annual water consumption. She discussed other District revenues which include capacity fee revenues which have decreased due to decreased development within the District and betterment fees have increased to about \$86,000 due to an increase in the workload for maintaining District facilities. Annexation fees are not expected in FY 2011, but staff does anticipate annexations in the future. Property tax revenues have

decreased about 1% and the County of San Diego Assessor's Office reported that Chula Vista's assessed property values have decreased about 3.4% this year.

She indicated that the District's potable and recycled water costs have decreased \$798,300 (2.2%), due to a combination of cost increases and volume decreases. The District's fixed cost increases include MWD and CWA fixed increases of \$1.1 million which will be passed-thru to District customers. Staffing has been reduced from 166 to 159 full-time equivalent (FTE) employees resulting in a decrease in salaries and benefits of \$463,400 (2.7%). It was noted that staff plans to charge more labor to the District's CIP budget, which will reduce its Operating budget by \$557,900. She stated that administrative expenses have increased approximately \$262,400, but will be reduced by \$10,000 as President Bonilla requested that the directors' fees be reduced by \$10,000. This request will reduce the administrative budget by \$252,400 which will be reflected in the District's final budget. The District's budget for materials and maintenance has decreased by \$32,100. She presented a slide which summarized that total revenues from potable, recycled and sewer which is expected to be \$77,003,900.

Chief Financial Officer Beachem indicated that the District's FY 2010-2011 balanced budget meets the needs of its customers and is supported by a 10.9% potable and recycled water rate increase, and a 6.8% sewer rate increase. He stated that staff was recommending that the board:

- 1) Adopt Resolution No. 4159 to approve the FY 2010-2011 Operating and CIP Budget;
- 2) Approve the fund transfers;
- 3) Approve Ordinance No. 525 to amend Appendix A of the Code of Ordinances with the proposed water and sewer rate increases; and
- 4) Direct staff to send notices of the rate increases to the District's customers

In response to a question from Director Breitfelder, Finance Manager Bell stated that the District's recycled water volume has decreased about 8% because its customers are conserving water. The District's largest recycled water customer is the City of Chula Vista who is undergoing budget constraints and consequently has reduced its water consumption and implemented changes to its irrigation patterns. In addition, South Bay Expressway is also watching their budget and, as a result, is using less recycled water for the SR 125 landscaping area. She indicated that weather is also a factor in the decrease of the District's recycled water sales due to increased rain this season.

In response to a question from Director Breitfelder, Chief of Engineering Posada stated that the CIP Budget was affected by the increase in material costs. President Bonilla also noted that inflation has affected the District's CIP Budget.

In response to a question from Director Croucher, Chief Information Officer Stevens stated that nine (9) of the 16 FTE reductions were from the Engineering Department.

He further shared that a historical chart comparing the District's in-house versus outsourcing of employees is available for the board's review.

Director Robak stated that the District's FY 2010-2011 Budget includes a budgeted 4.5% inflator for the City of San Diego's water supply fee and inquired if that fee was retroactive. Chief Financial Officer Beachem stated yes and that the inflator was built into the budget each year since 2007, increasing the cost per AF from \$350 in FY 2008 to \$417 in FY 2011. Staff indicated that the budget reflects that the new rate would only be implemented by the City for water sold from January 1, 2011 and forward.

In response to a question from Director Robak, staff indicated that the District's water purchase from CWA is an allocation, not an entitlement, and is based on a five-year rolling average. It was indicated that it is expected that after a number of years, CWA would adjust the allocation based on updated consumption numbers. As the District's consumption is dropping, it is expected that the allocation from CWA would also drop which could expose the District to some penalties (double or triple our rate from CWA).

At the request of Director Robak, Chief Financial Officer Beachem provided additional details of the District's debt coverage ratio and indicated that it should be at or above 150%. In addition, it was noted that staff has taken a conservative approach by not depending on growth in the future, so capacity fees are not calculated into the District's debt coverage ratio.

Director Robak inquired if the vacant full-time positions, which were not actively being recruited for, were vacated by retirees or employees who decided to leave. General Manager Watton stated that the positions were vacated by both retirees and employees who left. He indicated that the vacated positions were re-evaluated and the District decided not to recruit for the positions.

In response to a question from Director Robak, Finance Manager Bell stated that no net labor savings were reported in the efficiency savings chart for FY 2008 because it included an estimated \$150,000 landscaping contract at that time. The actual cost of the contract came in at \$85,000 annually for the next three (3) fiscal years. So the savings was based on what staff estimated at that time. She stated that sometimes, staff is also shifted to other positions where there is a need and not laid off.

Director Robak inquired if the increased efficiencies in each department were a result of collaborated ideas from the District's management team or employees. General Manager Watton stated that ideas and input from both the management team and the employees helped increase the District's efficiencies. Also, the District's Strategic Plan played a role with increased efficiencies in reporting and outsourcing wherever possible. Chief Financial Officer Beachem added that the District's Strategic Plan was a district-wide evaluation and was prepared by many ideas across-the-board (management and line staff).

Director Robak inquired about the North and South Interconnection Project, wherein General Manager Watton stated that after further staff review, it was decided that it would be more feasible to develop the project in the Sweetwater area instead of Proctor Valley. He stated that the Sweetwater area will increase the facility's flow of water and will not be subject to the growth curve in the Proctor Valley area. He also indicated that the District's budget shows what next year's expenditures will be, which will be significant because of the project's design work and the environmental impact report.

In response to a question from Director Robak regarding the District's tax revenue decrease, General Manager Watton stated that assessed values for properties in Chula Vista was reduced by 3.4%. It was noted that the County of San Diego's Tax Collector automatically reviews tax evaluations and is only 18% through its re-assessment of properties in Chula Vista. The District receives rental for several rental properties such as cell sites and the golf course.

In response to a question from President Bonilla, Finance Manager Bell indicated that budgeted water sales was \$49 million in FY 2009, \$56.3 million in FY 2010, and \$56.4 million in FY 2011.

President Bonilla stated that he expected to see a higher savings in the District's annual energy expenses. Finance Manager Bell stated that the pricing of energy is difficult to project and noted that the District's energy costs for each of its facilities are different and depends on when pumping is taking place. To get an estimated cost of the District's annual energy expenses, staff averages out the expense from the prior fiscal year and adjusts it for volume and pricing. She noted that the District's FY 2009 energy costs were lower than anticipated by about \$117,000 because of the reduced volume.

President Bonilla stated that while efficiency seems to be the District's main focus, particularly with the reduction of personnel as the District's informational technology and data-driven systems become more sophisticated, the District acknowledges that the employees are its most valuable and essential asset. The District also recognizes that investing in its employees and providing them with support and an opportunity to promote will enhance efficiencies even more.

General Manager Watton stated that within the past year, the District has demonstrated its support to its employees by promoting three staff members: 1) a warehouse employee was promoted to a purchasing position, 2) a lead man was promoted to a supervisor position, and 3) a meter reader was promoted to a water operator position. Each member attended training courses to obtain certification that was required to fill the promotional positions.

President Bonilla stated that the full board has the utmost respect and support for its staff members. He indicated that it is important for the District to have a balanced

budget and place its emphasis and resources where needed, but more importantly are the employees who serve and take pride in the District.

On behalf of the District's employees, General Manager Watton stated that the board's support for staff, from management to line staff, is greatly appreciated.

Chief of Information Technology Beachem thanked all staff members, especially the District's accountants, for their assistance with the development of the proposed FY 2010-11 Budget.

A motion was made by President Bonilla, seconded by Director Robak and carried unanimously with the following votes:

Ayes:	Directors Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to approve staffs' recommendations.

7. ADJOURNMENT

With no further business to come before the Board, President Bonilla adjourned the meeting at 4:55 p.m.

President

ATTEST:

District Secretary